

FRANKLIN COUNTY
Hampton, Iowa

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
June 30, 2004

FRANKLIN COUNTY, IOWA
Hampton, Iowa

TABLE OF CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITORS' REPORT	2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-9
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A..... 10
Statement of Activities.....	B..... 11
Governmental Fund Financial Statements:	
Balance Sheet.....	C..... 12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D..... 13
Statement of Revenues, Expenditures and Changes in Fund Balances	E..... 14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F..... 15
Proprietary Fund Financial Statements:	
Statement of Net Assets	G..... 16
Statement of Revenues, Expenses, and Changes in Fund Net Assets	H..... 17
Statement of Cash Flows.....	I..... 18
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Assets and Liabilities – Agency Funds	J..... 19
Notes to Financial Statements	20-32
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds33
Budget to GAAP Reconciliation34
Notes to Required Supplementary Information – Budgetary Reporting	35

TABLE OF CONTENTS

OTHER SUPPLEMENTARY INFORMATION:	<u>Schedule</u>	<u>Page</u>
Non-Major Special Revenue Funds:		
Combining Balance Sheet	1	36-37
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances.....	2	38-39
Agency Funds:		
Combining Schedule of Fiduciary Assets and Liabilities	3	40-41
Combining Schedule of Changes in Fiduciary Assets and Liabilities	4	42-43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	44
 INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING		 45-46
SCHEDULE OF FINDINGS		47-48

FRANKLIN COUNTY
Hampton, Iowa

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Daryl Kothenbeutel.....	Board of Supervisors.....	January 2005
Michael Nolte.....	Board of Supervisors.....	January 2007
Jerry Plagge	Board of Supervisors.....	January 2007
Michelle Giddings.....	County Auditor	January 2005
Naomi Morton.....	County Treasurer	January 2007
Toni Wilkinson.....	County Recorder	January 2007
Larry Richtsmeier	County Sheriff.....	January 2005
Brent J. Symens.....	County Attorney	January 2007
Danielle Naumann	County Assessor	Appointed

Independent Auditors' Report

To the Officials of Franklin County
Hampton, Iowa

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin County, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Franklin County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin County at June 30, 2004, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 11 to the financial statements, during the year ended June 30, 2004, Franklin County adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Independent Auditors' Report (Continued)

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 12, 2005 on our consideration of Franklin County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages **4 - 9** and **33 - 35** are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Franklin County's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

January 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Franklin County provides this Management's Discussion and Analysis of Franklin County's annual financial statements for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with Franklin County's financial statements, which follow.

Because Franklin County is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining Franklin County's financial position and results of operations.

This statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information such as managers, legislative officials, creditors, financial analysts, citizen groups and the general public. The minimum required financial presentation under GASB 34 includes the five (5) subsequently enumerated items:

1. Management's discussion and analysis (MD&A), which will provide an analysis of Franklin County's financial activities for a fiscal year based on currently known facts, decisions, and conditions.
2. Government-wide financial statement, which will display information about the government as a whole. This statement will measure and report all assets, liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting.
3. Fund financial statement that will display information about the major funds individually and the non-major funds in the aggregate. Financial statements will be presented using the current financial resources measurement focus and the modified accrual basis of accounting.
4. Notes to the financial statements.
5. Required supplementary information (other than MD&A), which will include required budgetary comparison information.

CAPITAL ASSET CAPITALIZATION

The Franklin County Board of Supervisors approved a resolution adopting capital assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years and depreciation for estimated useful lives (in years) for GASB 34 reporting:

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$50,000 beginning July 1, 2003
Land, buildings and improvements	\$25,000
Equipment and vehicles	\$ 5,000

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u> <u>(In Years)</u>
Buildings	40-65
Building improvements	20-50
Infrastructure	10-65
Equipment	2-20
Vehicles	3-10

Individual assets with an initial cost of \$100 or more but less than \$5,000 will be maintained on an inventory list for public accountability and insurance purposes.

Infrastructure assets are long-lived capital assets that are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets in Franklin County include roads and bridges.

FINANCIAL HIGHLIGHTS

- Ø County governmental funds revenue increased 8% or approximately \$721,475 from 2003 to 2004. Property taxes increased approximately \$61,263 and grants and contributions increased approximately \$536,150.
- Ø County program expenses were 2% or approximately \$155,306 less in fiscal year 2004 than in fiscal year 2003. Roads and transportation expense decreased approximately \$304,521.
- Ø The County's net assets increased 35% or approximately \$2,156,552 at June 30, 2004.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of Franklin County.

- Ø The first two statements are Franklin County-wide *financial statements* that provide both short-term and long-term information about the County's overall financial status.
- Ø The remaining statements are *fund financial statements* that focus on individual parts of the County, reporting the County's operations in more detail than the County-wide statements.
- Ø The *governmental funds statements* explain how basic services were financed in the short term as well as what remains for future spending.
- Ø *Fiduciary funds statements* provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the County's budget for the year.

Franklin County-wide Statements

The County-wide statements report information about the County as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the County's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two County-wide statements report the County's *net assets* and how they have changed. Net assets – are one way to measure the County's financial health or *position*.

- Ø Over time, increases or decreases in the County's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- Ø To assess the County's overall health, you need to consider additional non-financial factors such as changes in the County's property tax base and the condition of school buildings and other facilities.

In the county-wide financial statements, the County's governmental activities are reported:

- Ø *Governmental activities:* Most of the County's basic services are included here, including public safety and legal services, physical health and social services, mental health, mental retardation and developmental disabilities, County environment and education, roads and transportation, governmental services to residents, administrative services, non-program expenditures and other budgetary financing uses.

Fund Financial Statements

The fund financial statements provide more detailed information about the County's funds, focusing on its most significant or "Major" funds – not the County as a whole. Funds are accounting devices the County uses to keep track of specific sources of funding and spending on particular programs.

- Ø Some funds are required by state law and by bond covenants.
- Ø The County establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues such as federal grants.

The County has three kinds of funds:

- Ø *Governmental funds:* Most of the County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow and in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the county-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.
- Ø The County's governmental funds include the General Fund; Special Revenue Funds; Debt Service Fund; Capital Projects Fund and the Permanent Funds.
- Ø *Proprietary funds:* Services for which the County charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the county-wide statements.
- Ø The County uses an *Internal Service Fund*, to account for the Employee Group Health Insurance account.
- Ø *Fiduciary funds:* The County is the trustee, or fiduciary, for assets that belong to others, such as drainage districts, emergency management services and County Assessor.

The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The County excludes these activities from the county-wide financial statements because it cannot use these assets to finance its operations.

A summary reconciliation between the county-wide financial statements and the fund financial statements follows the fund financial statements.

Financial Analysis of Franklin County as a Whole

Net assets: As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the net assets for governmental activities.

Net Assets of Governmental Activities

(Expressed in thousands)

Net Assets:		2004	2003
Current and other assets	\$	8,852	na
Capital assets		5,409	na
Total assets		14,261	0
Current liabilities		4,648	na
Long-term liabilities		1,358	na
Total liabilities	\$	6,006	0
Net Assets:			
Invested in capital assets, net of related debt		3,906	na
Restricted		2,722	na
Unrestricted		1,626	0
Total net assets	\$	8,254	0

Net assets of the County's governmental activities increased by 35% (8.2 million compared to 6.1million). The largest portion of the County's net assets is invested in Capital Assets (e.g., land infrastructure, buildings, and equipment), less the related debt. The debt related to the Investment in Capital Assets is liquidated with sources other than capital assets. Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The County increased its investment in Capital Assets and Infrastructure by approximately \$1,154,740. The County's improved financial position is the product of many factors. Growth during the year in taxes and grants was a significant contributor to this improvement.

Changes in Net Assets of Governmental Activities (Expressed in Thousands)

	2004	2003
Program revenues:		
Charges for service	\$ 761	na
Operating grants & contributions	3470	na
Capital grants & contributions	1071	na
Property taxes	3886	na
Unrestricted investment earnings	59	na
Other general revenues	328	na
Total revenues	<u>\$ 9575</u>	<u>0</u>
Program expenses:		
Public safety & legal services	\$ 1007	na
Physical health & social services	1239	na
Mental health	1012	na
County environment & education	492	na
Roads & transportation	2976	na
Government services to residents	256	na
Administration or general government	1140	na
Non-program	164	na
Interest on long-term debt	32	na
Total expenses	<u>\$ 8318</u>	<u>0</u>
Increase (decrease) in net assets	1257	0
Net assets July 1, 2003	<u>6098</u>	<u>na</u>
Net assets June 30, 2004	<u><u>\$ 8254</u></u>	<u><u>na</u></u>

Revenues for the County's governmental activities increased by 8%, while total expenses decreased by 2%. This modest growth in revenues covered this year's costs.

Governmental Activities

Revenues for Franklin County's governmental activities increased 8%, while total expenses decreased 2%. The increase in net assets in governmental activities totaled \$1.2 million in Fiscal 2004.

Revenues for governmental activities were \$10 million while expenses amounted to \$8.3 million. In a difficult budget year, the County did a remarkable job trimming expenses to match available revenues.

The cost of all governmental activities this year was \$8,318,054. The portion of the cost financed by users of the County's programs was \$761,224. The federal and state governments and private contributors subsidized certain programs with grants and contributions totaling \$4,542,230. The net cost portion of governmental activities was financed with \$3,913,761 in property tax and penalties, \$214,947 in intergovernmental revenue, \$339,015 (Local option sales tax, tax increment financing revenue, etc.) and \$59,610 in unrestricted interest income.

Financial Analysis of the County's funds

As previously noted the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The strong financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported combined fund balances of \$4,097,358, which is above last year's ending fund balances of \$3,576,217. The following are the major reasons for the changes in fund balances from the prior year:

- Ø General Fund revenues and expenditures remained consistent when compared to the prior year. The ending fund balance showed a modest decline from the prior year of \$1,460,875 to \$1,444,933.
- Ø The County has continued to look for ways to effectively manage the cost of mental health services. For the past year, expenditures totaled \$1,005,413, an increase of 1% from the prior year. The Mental Health Fund Balance at year end increased by \$127,538 over the prior year.
- Ø Rural Basic Fund balances decreased moderately by \$25,829.
- Ø Secondary Road Fund expenditures increased by \$315,821 over the prior year due principally to an increase in roadway maintenance and large equipment purchases. This increase was covered by a moderate increase in revenue from Fiscal 2003 (6%).

Budgetary Highlights

In accordance with the State of Iowa, the County annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The County's certified budget is prepared on the cash basis.

Over the course of the year, the County amended the certified budget four times.

These amendments resulted in an increase in budgeted revenue of \$396,870, and an increase in budgeted expenditures of \$93,177. None of the amendments made during the 2004 fiscal year should have any significant impact on the 2005 fiscal year's budget.

Capital Assets and Debt Administration

Capital Assets

At the end of 2004, the County had \$7.3 million invested in a broad range of capital assets, including public safety equipment, buildings, park facilities, roads and bridges. This amount represents a net increase (including additions and deletions) of approximately \$508,520, or 7% over last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was approximately \$315,698.

(Expressed in thousands)

Capital Assets at Year End of Governmental Activities	2004	2003
Land	\$ 593	\$ 685
Buildings and Improvements	1,695	1,438
Machinery & Equipment	5,180	5,414
Infrastructure	486	0
Construction in Process	950	0
Totals	<u>\$ 8,904</u>	<u>\$ 7,537</u>

This year's major additions included (in thousands):

County Roads Construction in Process	950
Vehicles	337
Infrastructure	486
	<u>\$ 1,773</u>

The County had depreciation expense of \$315,698 for the year ended June 30, 2004 and total accumulated depreciation as of June 30, 2004 of \$3,496,368.

The County's fiscal year 2004 capital budget included \$656,334 for capital projects for road construction and clock tower repair.

Debt Administration

At year-end, the County had \$1,346,085 in notes and other debt (Landfill liability), compared to \$1,358,541 last year as shown below. This is a decrease of 1% from the prior year. More information about the County's long-term debt liabilities is available in Note 7 to the Financial Statements. Other obligations include accrued compensated absences, drainage warrants, and drainage improvement certificates.

Outstanding Debt at Year-End of Governmental Activities (Expressed in thousands)

Outstanding Debt at Year-End	2004	2003
General obligation notes	\$ 410	\$ 410
Drainage warrants and improvement certificates	42	156
Compensated absences	163	155
Postclosure estimate	936	948
Totals	<u>\$ 1,551</u>	<u>\$ 1,669</u>

Economic Factors Bearing on the County's Future

The County's elected and appointed officials and citizens considered many economic factors when setting the 2005 fiscal year budget, tax rates, and the fees that will be charged for the various County activities. The County's budgeted ending cash balance for fiscal year 2005 is \$.6 million less than the actual cash balance for fiscal year 2004. This is primarily due to a moderate increase in budgeted expenses for fiscal year 2005.

Contacting the County's Financial Management

This financial report is designed to provide the County's citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Franklin County Auditor's Office, 12 1st Ave NW, PO Box 26, Hampton, IA 50441.
Phone: 641-456-5622.

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities
ASSETS	
Cash & Pooled Investments	\$4,171,526
Receivables	
Property Tax	
Delinquent	26,321
Succeeding Year	3,873,032
Interest & Penalty On Property Tax	197
Accounts	125,291
Accrued Interest	2,914
Drainage Assessments	24,945
Due From Other Governments	269,884
Inventories	322,268
Prepaid Insurance	35,613
Capital Assets (Net of Accumulated Depreciation)	5,409,064
TOTAL ASSETS	14,261,055
LIABILITIES	
Accounts Payable	518,950
Accrued Interest Payable	2,276
Salaries & Benefits Payable	20,518
Due To Other Governments	39,076
Deferred Revenue	
Succeeding Year Property Tax	3,873,032
Long Term Liabilities	
Portion Due Or Payable Within One Year	
General Obligation Notes	30,907
Compensated Absences	163,355
Portion Due Or Payable After One Year	
General Obligation Bonds	379,093
Postclosure Care Costs	936,085
Drainage Warrants/Drainage Improvement Certificates Payable	42,830
TOTAL LIABILITIES	6,006,122
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,906,601
Restricted For:	
Mental Health Purposes	225,685
Secondary Roads Purposes	1,439,456
Drainage Warrants / Improvements	138,476
Other Purposes	918,071
Unrestricted	1,626,644
TOTAL NET ASSETS	\$8,254,933

See Notes To Financial Statements

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues			
		Charges for	Operating	Capital Grants, Net (Expense)	Revenue
		Service	Grants,	Contributions, & Restricted Interest	& Change In Net Assets
			Contributions, & Restricted Interest		
GOVERNMENTAL ACTIVITIES:					
Public Safety and Legal Services	\$1,006,752	\$49,626	\$60,441	\$0	\$(896,685)
Physical Health and Social Services	1,238,973	221,937	804,626	0	(212,410)
Mental Health	1,011,476	0	285,174	0	(726,302)
County Environment and Education	492,419	14,002	41,733	0	(436,684)
Roads and Transportation	2,975,761	32,068	2,134,828	1,071,500	262,635
Governmental Services to Residents	256,115	193,141	18,802	0	(44,172)
Administration	1,140,149	22,371	125,126	0	(992,652)
Non-Program	164,159	228,079	0	0	63,920
Interest on Long-Term Debt	32,250	0	0	0	(32,250)
TOTAL	\$8,318,054	\$761,224	\$3,470,730	\$1,071,500	(3,014,600)
GENERAL REVENUES:					
Property and Other County Tax Levied For:					
General Purposes					3,886,674
Penalties and Interest on Property Tax					27,087
State Tax Credits					214,947
Local Option Sales Tax					339,015
Unrestricted Investment Earnings					59,610
Miscellaneous					701,127
Loss on Disposal of Capital Assets					(57,308)
TOTAL GENERAL REVENUES					5,171,152
CHANGE IN NET ASSETS					2,156,552
NET ASSETS, BEGINNING OF YEAR (as restated Note 11)					6,098,381
NET ASSETS END OF YEAR					\$8,254,933

See Notes To Financial Statements

**FRANKLIN COUNTY
Hampton, Iowa**

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2004

	Special Revenue				Nonmajor	
	General	Mental Health	Rural Services	Secondary Roads	Special Revenue	Total
ASSETS						
Cash and Pooled Investments	\$1,450,101	\$277,481	\$305,876	\$1,346,514	\$527,056	\$3,907,028
Receivables						
Property Tax						
Delinquent	15,404	2,142	8,775	0	0	26,321
Succeeding Year	2,361,066	328,327	1,183,639	0	0	3,873,032
Interest & Penalty on Property Tax	197	0	0	0	0	197
Accounts	35,432	22,291	0	24,912	42,656	125,291
Accrued Interest	2,888	0	0	0	26	2,914
Drainage Assessments	0	0	0	0	24,945	24,945
Due From Other Funds	7,034	0	0	0	0	7,034
Due From Other Governments	21,986	137	8,307	177,402	62,052	269,884
Inventories	0	0	0	322,268	0	322,268
Prepaid Insurance	35,613	0	0	0	0	35,613
TOTAL ASSETS	\$3,929,721	\$630,378	\$1,506,597	\$1,871,096	\$656,735	\$8,594,527
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	\$80,293	\$58,994	\$6,481	\$348,706	\$15,363	\$509,837
Salaries and Benefits Payable	3,919	407	92	12,370	3,730	20,518
Interest Payable	0	0	0	0	269	269
Due To Other Governments	20,877	18,199	0	0	0	39,076
Deferred Revenue						
Succeeding Year Property Tax	2,361,066	328,327	1,183,639	0	0	3,873,032
Other	18,633	2,124	8,752	0	24,928	54,437
Total Liabilities	2,484,788	408,051	1,198,964	361,076	44,290	4,497,169
Fund Balances						
Reserved For:						
Inventories	0	0	0	322,268	0	322,268
Unreserved, Reported In:						
General Fund	1,444,933	0	0	0	0	1,444,933
Special Revenue Funds	0	222,327	307,633	1,187,752	612,445	2,330,157
Total Fund Balances	1,444,933	222,327	307,633	1,510,020	612,445	4,097,358
TOTAL LIABILITIES & FUND BALANCES	\$3,929,721	\$630,378	\$1,506,597	\$1,871,096	\$656,735	\$8,594,527

See Notes To Financial Statements

**FRANKLIN COUNTY
Hampton, Iowa**

**RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2004**

Total Governmental Fund Balances – Page 12 (Exhibit C) \$4,097,358

*Amounts reported for governmental activities in the Statement of Net Assets
are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$8,905,432 and the accumulated depreciation is \$3,496,368. 5,409,064

Other long-term assets are not available to pay current expenditures and, therefore, are deferred in the funds. 54,437

The Internal Service Fund is used by management to charge the costs of self funding of the County's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 248,351

Long-term liabilities, including bonds payable, compensated absences payable, accrued interest payable, postclosure costs payable and drainage warrants and improvement certificates payable are not due and payable in the current period and, therefore, are not reported in the funds. (1,554,277)

Net Assets of Governmental Activities – Page 10 (Exhibit A) \$8,254,933

See Notes To Financial Statements.

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Special Revenue			Nonmajor Special Revenue	Total
		Mental Health	Rural Services	Secondary Roads		
REVENUES						
Property and Other County Tax	\$2,320,183	\$338,499	\$1,331,989	\$113,005	\$118,492	\$4,222,168
Interest and Penalty on Property Tax	27,087	0	0	0	0	27,087
Intergovernmental	1,085,103	804,022	61,540	2,134,828	130,712	4,216,205
Licenses and Permits	3,960	0	0	890	0	4,850
Charges for Services	448,298	0	0	40	28,280	476,618
Use of Money and Property	70,210	0	0	9,642	289	80,141
Miscellaneous	120,319	7,430	0	26,373	200,951	355,073
Total Revenues	4,075,160	1,149,951	1,393,529	2,284,778	478,724	9,382,142
EXPENDITURES						
Operating						
Public Safety and Legal Services	998,621	0	6,197	0	7,131	1,011,949
Physical Health and Social Services	1,199,923	0	0	0	18,471	1,218,394
Mental Health	0	1,005,413	0	0	0	1,005,413
County Environment and Education	239,259	0	103,378	0	164,704	507,341
Roads and Transportation	0	0	0	2,708,995	0	2,708,995
Governmental Services to Residents	242,794	0	0	0	5,428	248,222
Administrative Services	1,307,673	0	1,493	0	0	1,309,166
Nonprogram	0	0	0	0	164,159	164,159
Debt Service	0	0	0	0	32,488	32,488
Capital Projects	0	0	0	628,140	5,438	633,578
Total Expenditures	3,988,270	1,005,413	111,068	3,337,135	397,819	8,839,705
Excess (Deficiency) of Revenues Over (Under) Expenditures	86,890	144,538	1,282,461	(1,052,357)	80,905	542,437
Other Financing Sources (Uses)						
Sale of Capital Assets	243	0	0	21,556	0	21,799
Operating Transfers In	17,000	0	0	1,399,981	28,384	1,445,365
Operating Transfers Out	(120,075)	(17,000)	(1,308,290)	0	0	(1,445,365)
Drainage Warrant Proceeds	0	0	0	0	12,379	12,379
Total Other Financing Sources (Uses)	(102,832)	(17,000)	(1,308,290)	1,421,537	40,763	34,178
Net Change in Fund Balances	(15,942)	127,538	(25,829)	369,180	121,668	576,615
Fund Balances – Beginning of Year, as Restated (Note 11)	1,460,875	94,789	333,462	1,196,314	490,777	3,576,217
Decrease in Reserve For Inventories	0	0	0	(55,474)	0	(55,474)
Fund Balances – End of Year	\$1,444,933	\$222,327	\$307,633	\$1,510,020	\$612,445	\$4,097,358

See Notes To Financial Statements

**FRANKLIN COUNTY
Hampton, Iowa**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2004

**Net Change in Fund Balances - Total Governmental Funds –
Page 14 (Exhibit E)**

\$521,141

*Amounts reported for governmental activities in the Statement of
Activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year as follows:

Expenditures for capital assets	\$906,166	
Capital assets contributed by the Iowa Department of Transportation	1,071,500	
Depreciation Expense	<u>(315,698)</u>	1,661,968

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the sale as an increase in financial resources.

(79,107)

Because some revenues will not be collected for several months after the County's year end, they are not considered available revenues and are deferred in the governmental funds as follows:

Property Tax	3,521	
Other	<u>(4,919)</u>	(1,398)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

Issued	(16,363)	
Repaid	<u>142,367</u>	126,004

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds as follows:

Compensated absences	(8,433)	
Interest on long-term debt	<u>238</u>	(8,195)

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

(63,861)

Change in net assets of Governmental Activities – Page 11 (Exhibit B)

\$2,156,552

See Notes to Financial Statements

**FRANKLIN COUNTY
Hampton, Iowa****STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004**

	Internal Service Employee Group Health
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$257,464
<hr/>	
LIABILITIES	
Accounts Payable	\$9,113
<hr/>	
NET ASSETS	
Unrestricted	\$248,351
<hr/>	

See Notes To Financial Statements

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	Internal Service Employee Group Health
<hr/>	
OPERATING REVENUES	
Reimbursements From Operating Funds	\$600,632
Reimbursements From Employees	113,470
Total Operating Revenues	<hr/> 714,102 <hr/>
 OPERATING EXPENSES	
Medical Claims	108,098
Insurance Premiums	657,412
Administrative Fees	12,453
Total Operating Expenses	<hr/> 777,963 <hr/>
 Net Loss	 (63,861)
 Net Assets Beginning of Year	 <hr/> 312,212 <hr/>
 Net Assets End of Year	 <hr/> \$248,351 <hr/>

See Notes To Financial Statements

FRANKLIN COUNTY
Hampton, Iowa

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	Internal Service Employee Group Health
<hr/> CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received From Operating Fund Reimbursements	\$630,082
Cash Received From Employees and Others	113,470
Cash Payments To Suppliers For Services	(775,254)
Net Cash Used In Operating Activities	<hr/> (31,702) <hr/>
Cash & Cash Equivalents at Beginning of Year	<hr/> 289,166 <hr/>
Cash & Cash Equivalents at End of Year	<hr/> \$257,464 <hr/>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating Loss	\$(63,861)
Adjustments to Reconcile Operating Loss to Net Cash	
Used In Operating Activities	
Decrease In Accounts Receivable	29,450
Increase In Accounts Payable	<hr/> 2,709 <hr/>
Net Cash Used In Operating Activities	<hr/> \$(31,702) <hr/>

See Notes To Financial Statements

Exhibit J**FRANKLIN COUNTY
Hampton, Iowa****STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004****ASSETS**

Cash & Pooled Investments	
County Treasurer	\$639,897
Other County Officials	4,741
Receivables	
Property Tax	
Delinquent	753
Succeeding Year	10,633,339
Accounts	2,588
Accrued Interest	99
Due from Other Governments	5,435
TOTAL ASSETS	11,286,852

LIABILITIES

Accounts Payable	82,412
Salaries & Benefits Payable	0
Due To Other Governments	11,193,405
Trusts Payable	11,035
TOTAL LIABILITIES	11,286,852

NET ASSETS	\$0
-------------------	------------

See Notes To Financial Statements

FRANKLIN COUNTY

Hampton, Iowa

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Franklin County is a political subdivision of the State of Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The County operates under the Board of Supervisors form of government. Elections are on a partisan basis. Other elected officials operate independently with the Board of Supervisors. These officials are the Auditor, Treasurer, Recorder, Sheriff, and Attorney. The County provides numerous services to citizens, including law enforcement, health and social services, parks and cultural activities, planning and zoning, roadway construction and maintenance, and general administrative services.

The County's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. REPORTING ENTITY

For financial reporting purposes, Franklin County has included all funds, organizations, agencies, boards, commissions, and authorities. The County has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the County to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the County.

These financial statements present Franklin County (the primary government) and its component units. The component units discussed below are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

Blended Component Units – The following component units are entities that are legally separate from the County, but are so intertwined with the County that they are, in substance, the same as the County. They are reported as part of the County and blended into the appropriate funds.

One hundred thirty five drainage districts have been established pursuant to Chapter 468 of the Code of Iowa for the drainage of surface waters from agricultural and other lands or the protection of such lands from overflow. Though these districts are legally separate from the County, they are controlled, managed and supervised by the Franklin County Board of Supervisors. The drainage districts are reported as a Special Revenue Fund. Financial information of the individual drainage districts can be obtained from the Franklin County Auditor's office.

Jointly Governed Organizations – The County also participates in several jointly governed organizations that provide goods or services to the citizenry of the County but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The Franklin County Board of Supervisors are members of or appoint representatives to the following boards and commissions: Franklin County Assessor's Conference Board, Franklin County Emergency Management Commission, and Franklin County Joint E911 Service Board. Financial transactions of these organizations are included in the County's financial statements only to the extent of the County's fiduciary relationship with the organization and, as such, are reported in the Agency Funds of the County.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the County and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities are supported by property tax, intergovernmental revenues and other non-exchange transactions.

The Statement of Net Assets presents the County's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The County reports the following major governmental funds:

The General Fund is the general operating fund of the County. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs that are not paid from other funds.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

B. BASIS OF PRESENTATION (CONTINUED)

Special Revenue

The Mental Health Fund is used to account for property tax and other revenues designated to be used to fund mental health, mental retardation, and developmental disabilities services.

The Rural Services Fund is used to account for property tax and other revenues to provide services which are primarily intended to benefit those persons residing in the county outside of incorporated city areas.

The Secondary Roads Fund is used to account for the secondary road construction and maintenance.

Additionally the County reports the following funds:

Proprietary Fund – An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the county and provided to other departments or agencies on a cost reimbursement basis.

Fiduciary Funds – Agency funds are used to account for assets held by the county as an agent for individuals, private organizations, certain jointly governed organizations, other governmental units, and/or other funds.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the County.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However principal and interest on long term debt, claims, judgments and compensated absences are recorded as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Under the terms of grant agreements, the county funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply the cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

The proprietary funds of the county applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements: Financial Accounting Standards Board Statements of Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's internal service fund is charges to customers for sales and services. Operating expenses for internal service funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The County maintains its financial records on the cash basis. The financial statements of the County are prepared by making memorandum adjusting entries to the cash basis financial records.

D. ASSETS, LIABILITIES AND FUND EQUITY

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most County funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify its budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is

deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified by the County Board of Supervisors in March, 2003.

Interest and Penalty on Property Tax Receivable – Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable, but has not been collected.

Drainage Assessments Receivable – Drainage assessment receivable represent amounts assessed to individuals for work done on drainage districts which benefit their property. These assessments are payable by individuals in not less than 10 nor more than 20 annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other taxes. Delinquent drainage assessments receivable represent assessments which are due and payable but have not been collected. Succeeding year drainage assessments receivable represent remaining assessments which are payable but not yet due.

Due from and Due to Other Funds – During the course of its operations, the County has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Capital Assets – Capital assets, which include property, equipment and vehicles, and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the County as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Infrastructure	\$50,000
Land, Buildings and Improvements	25,000
Equipment and Vehicles	5,000

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

D. ASSETS, LIABILITIES AND FUND EQUITY (CONTINUED)

Capital assets of the County are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>(In Years)</u>	Estimated Useful Lives
Buildings	40-65	
Building Improvements	20-50	
Infrastructure	10-65	
Equipment	2-20	
Vehicles	3-10	

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the County and payments for services which will be remitted to other governments.

Trusts Payable – Trusts payable represents amounts due to others which are held by various County officials in fiduciary capacities until the underlying legal matters are resolved.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year-end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences – County employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absence liability attributable to the governmental activities will be paid primarily by the General, Mental Health, Rural Services and Secondary Roads Funds.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type Statement of Net Assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Notes to Financial Statements (Continued)

Note 1: Summary of Significant Accounting Policies (Continued)

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. BUDGETS AND BUDGETARY ACCOUNTING

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded amounts budgeted in the County environment and education function, and disbursements in certain departments exceeded the amounts appropriated.

Note 2: Cash and Pooled Investments

The County's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The County is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Supervisors; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The County had investments in the Iowa Public Agency Investment Trust which are valued at amortized cost of \$103,600, pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Note 3: Due from and Due to Other Funds

The detail of inter-fund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Trust and Agency:	
	Auto License and Use Tax	\$7,034

These balances resulted from the time lag between the dates that inter-fund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Note 4 : Inter-fund Transfers

The detail of inter-fund transfers for the year ended June 30, 2004 is as follows:

Transfer To	Transfer From	Amount
General Basic	Mental Health	\$ 17,000
Special Revenue:		
Secondary Roads	General Basic	91,691
Secondary Roads	Rural Services	1,308,290
Conservation Land Acquisition	General Basic	28,384
Total		<u>\$ 1,445,365</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Notes to Financial Statements (Continued)

Note 5 : Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$685,781	\$40,000	\$132,494	\$593,287
Construction in progress	0	950,926	0	950,926
Total capital assets not being depreciated	685,781	990,926	132,494	1,544,213
Capital assets being depreciated:				
Buildings	1,438,983	128,000	0	1,566,983
Improvements other than buildings	0	127,563	0	127,563
Machinery and equipment	3,433,168	35,229	257,107	3,211,290
Vehicles	1,980,548	337,359	349,113	1,968,794
Infrastructure, road network	0	486,589	0	486,589
Total capital assets being depreciated	6,852,699	1,114,740	606,220	7,361,219
Less accumulated depreciation for:				
Buildings	302,583	28,926	0	331,509
Improvements other than buildings	0	94	0	94
Machinery and equipment	2,189,682	150,667	228,625	2,111,724
Vehicles	1,220,012	117,962	302,982	1,034,992
Infrastructure, road network	0	18,049	0	18,049
Total accumulated depreciation	3,712,277	315,698	531,607	3,496,368
Total capital assets being depreciated, net	3,140,422	799,042	74,613	3,864,851
Governmental activities capital assets, net	\$3,826,203	\$1,789,968	\$207,107	\$5,409,064

Depreciation was charged to functions of the primary government as follows:

Governmental activities:	
Public safety and legal services	\$28,465
Physical health and social services	3,798
Mental health	1,175
County environment and education	23,521
Roads and transportation	226,146
Governmental services to residents	2,731
Administration	29,862
Total depreciation expense – governmental activities	\$315,698

Notes to Financial Statements (Continued)

Note 6 : Due to Other Governments

The County purchases services from other governmental units and also acts as a fee and tax collection agent for various governmental units. Tax collections are remitted to those governments in the month following collection. A summary of amounts due to other governments is as follows:

Fund	Description	Amount
General	Services	\$20,877
Special Revenue:		
Mental Health	Services	18,199
Total for governmental funds		<u>\$39,076</u>
Agency:		
Agricultural Extension	Collections	\$112,791
Assessor & Special Appraisal		226,052
Schools		6,476,893
Area Schools		320,141
Corporations		2,668,458
Auto License & Use Tax		249,585
All Others		1,139,485
Total for agency funds		<u>\$11,193,405</u>

Note 7 : Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004, is as follows:

	General Obligation Notes	Estimated Liability for Landfill Closure/ Postclosure Care Costs	Drainage Warrants	Drainage Improvement Certificates	Compensated Absences	Total
Balance beginning of year,	\$410,000	\$948,541	\$123,173	\$33,205	\$154,922	\$1,669,841
Additions	0	0	12,379	3,984	9,433	24,796
Reductions	0	12,456	117,650	12,261	0	142,367
Balance end of year	<u>\$410,000</u>	<u>\$936,085</u>	<u>\$17,902</u>	<u>\$24,928</u>	<u>\$163,355</u>	<u>\$1,552,270</u>
Due within one year	<u>\$30,907</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$163,355</u>	<u>\$194,262</u>

Notes to Financial Statements (Continued)

Note 7 : Changes in Long-Term Liabilities (Continued)

Notes Payable

A summary of the County's June 30, 2004 general obligations note indebtedness is as follows:

Year Ending June 30,	Interest Rate	Principle	Interest	Total
2005	5.95%	\$30,907	\$24,083	\$54,990
2006	5.95	32,790	22,200	54,990
2007	5.95	34,782	20,208	54,990
2008	5.95	36,874	18,116	54,990
2009	5.95	39,133	15,857	54,990
2010	5.95	41,509	13,481	54,990
2011	5.95	44,030	10,960	54,990
2012	5.95	46,695	8,295	54,990
2013	5.95	49,539	5,451	54,990
2014	5.95	53,741	2,439	56,180
		<u>\$410,000</u>	<u>\$141,090</u>	<u>\$551,090</u>

Landfill – Closure and Postclosure Care Costs

State and Federal Laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The County stopped accepting waste at the landfill on June 20, 1994. The County closed the landfill during the year ended June 30, 1996, incurring a total cost of \$100,118. The County has also incurred \$92,915 for the years ended June 30, 1997 through 2004, in costs for postclosure expenditures. The \$936,085 reported as estimated liability for landfill postclosure costs at June 30, 2004, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of the landfill. These amounts are based on what it would cost to perform ass postclosure care during the year ended June 30, 2004. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

Drainage Warrants/Drainage Improvement Certificates

Drainage warrants are warrants which are legally drawn on drainage district funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented.

Drainage improvement certificates payable represent amounts due to purchasers of drainage improvement certificates. Drainage improvement certificates are waivers that provide for a landowner to pay an improvement assessment in installment payments over a designated number of years with interest at a designated interest rate. The improvement certificates representing those assessments or installments due from the landowner are sold for cash as interest bearing certificates. Funds received from the sale of certificates are used to pay outstanding registered warrants issued to contractors who perform work on drainage district improvements and registered warrants issued for other related costs. Drainage improvement certificates are redeemed and interest paid to the bearer of the certificate upon receipt of the installment payment plus interest from the landowner.

Drainage warrants and drainage improvement certificates are paid from the Special Revenue Fund solely from special assessments against benefited properties.

Notes to Financial Statements (Continued)

Note 8 : Pension and Retirement Benefits

The County contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the County is required to contribute 5.75% of annual covered payroll except for law enforcement employees, in which case the percentages for the year ended June 30, 2004 are 4.99% and 7.48%, respectively. For the year ended June 30, 2003, the contribution rates for law enforcement employees and the County were 5.37% and 8.05%, respectively, and for the year ended June 30, 2002, the contribution rates for law enforcement employees and the County were 5.50% and 8.25%, respectively. Contribution requirements are established by State statute. The County's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$182,600, \$173,240, and \$168,712, respectively, equal to the required contributions for each year.

Note 9 : Risk Management

Franklin County is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 331.301 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 490 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property and inland marine. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of a deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if sufficient, by the subsequent year's member contributions.

The County's property and casualty contribution to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The County's annual contributions to the Pool for the year ended June 30, 2004 were \$119,588.

The Pool uses reinsurance and excess risk sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks are reinsured on an individual member basis.

Notes to Financial Statements (Continued)

Note 9 : Risk Management (Continued)

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk sharing protection provided by the member's risk sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The County does not report a liability for losses in excess of reinsurance or excess risk sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the County's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of their capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution, which the withdrawing member would have made for the one-year period following withdrawal.

The County also carries commercial insurance purchased from other insurers for coverage associated with worker's compensation and employee blanket bond. The County assumes liability for any deductibles and claims in excess of coverage limitations. The County assumes responsibility for worker's compensation and employee blanket bond in excess of \$500,000 and \$20,000 per employee, with additional \$30,000 coverage on the Treasurer. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10 : Employee Health Insurance Plan

The Franklin County Employees Group Health Fund was established to account for the County's health insurance benefit plan. The plan is funded by both employee and County contributions and was administered through a service agreement with Wellmark Blue Cross and Blue Shield of Iowa. The agreement is subject to automatic renewal provisions. The County assumes liability for claims up to the individual stop loss limitations of \$35,000. Claims in excess of coverage are insured through purchase of stop loss insurance.

Monthly payments of service fees and plan contributions to the Franklin County Employee Group Health Fund are recorded as expenditures from the operating funds. Under the administrative service agreement, monthly payments of service fees and claims processed are paid to Wellmark Blue Cross and Blue Shield of Iowa from the Franklin County Employee Group Health Fund. The County records the plan assets and related liabilities of the Franklin County Employee Group Health Fund as an Internal Service Fund. The County's contribution to the fund for the year ended June 30, 2004 was \$600,632.

Note 11: Accounting Change and Restatement

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*; Statement No. 37, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule - Perspective Differences* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the County's financial activities. The financial statements now include government-wide financial

statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in one column.

Notes to Financial Statements (Continued)

Note 11: Accounting Change and Restatement (Continued)

The government-wide statements report the County's governmental activities. Beginning net assets for governmental activities has been restated to include capital assets, the Internal Service Fund and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements in the governmental activities is summarized as follows:

Net Assets, June 30, 2003 as previously reported		\$3,534,079
GASB Interpretation 6 Adjustments	*	<u>42,138</u>
Net Assets, July 1, 2003 as restated for Governmental Funds		3,576,217
GASB 34 Adjustments		
Capital Assets, net of accumulated depreciation of \$3,712,277		3,826,203
Internal Service Fund		312,212
Change in Long Term Liabilities		
Bonds Payable	\$(410,000)	
Drainage District Warrants Payable	(156,378)	
Postclosure Costs	(948,541)	
Compensated Absences	(154,922)	
Accrued Interest Payable	<u>(2,245)</u>	(1,672,086)
Change in Deferral of Long Term Assets		
Property Taxes	22,630	
Drainage Assessments	<u>33,205</u>	<u>55,835</u>
Net Assets, as restated at July 1, 2003		<u>\$6,098,381</u>

* Compensated absence payable previously reported as a fund liability. Under GASB Interpretation #6, these are generally considered to be long-term liabilities.

FRANKLIN COUNTY
Hampton, Iowa

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) – ALL GOVERNMENTAL FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004

	Actual	Less Funds Not Required to Be Budgeted	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
RECEIPTS						
Property & Other County Tax	\$4,220,449	\$0	\$4,220,449	\$4,619,549	\$4,625,549	\$(405,100)
Interest & Penalty on Property Tax	26,902	0	26,902	11,050	11,050	15,852
Intergovernmental	4,135,550	0	4,135,550	3,792,903	4,028,925	106,625
Licenses & Permits	4,790	0	4,790	4,800	4,800	(10)
Charges for Services	478,962	0	478,962	402,840	423,990	54,972
Use of Money & Property	81,217	0	81,217	158,225	158,225	(77,008)
Miscellaneous	347,054	156,690	190,364	53,975	187,673	2,691
Total Receipts	9,294,924	156,690	9,138,234	9,043,342	9,440,212	(301,978)
DISBURSEMENTS						
Public Safety & Legal Services	1,013,616	0	1,013,616	1,098,811	1,180,611	166,995
Physical Health & Social Services	1,219,670	0	1,219,670	1,332,642	1,332,642	112,972
Mental Health	1,015,378	0	1,015,378	1,054,763	1,054,763	39,385
County Environment & Education	489,133	0	489,133	564,831	226,079	(263,054)
Roads & Transportation	2,555,901	0	2,555,901	3,096,000	2,996,000	440,099
Governmental Services to Residents	252,847	0	252,847	258,263	300,913	48,066
Administrative Services	1,320,615	0	1,320,615	1,311,348	1,517,116	196,501
Nonprogram	169,431	169,431	0	0	0	0
Debt Service	38,604	0	38,604	482,000	518,100	479,496
Capital Projects	629,653	0	629,653	513,500	656,334	26,681
Total Disbursements	8,704,848	169,431	8,535,417	9,712,158	9,782,558	1,247,141
Excess (Deficiency) of Receipts Under Disbursements	590,076	(12,741)	602,817	(668,816)	(342,346)	945,163
Other Financing Sources, Net	12,794	12,379	415	5,250	5,250	(4,835)
Excess (Deficiency) of Receipts & Other Financing Sources Over (Under) Disbursements & Other Financing Uses	602,870	(362)	603,232	(663,566)	(337,096)	940,328
Balance Beginning of Year	3,304,158	128,568	3,175,590	2,489,447	2,489,447	686,143
Balance End of Year	\$3,907,028	\$128,206	\$3,778,822	\$1,825,881	\$2,152,351	\$1,626,471

See Accompanying Independent Auditors' Report

FRANKLIN COUNTY
Hampton, Iowa

BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$9,294,924	\$87,218	\$9,382,142
Expenditures	8,704,848	134,857	8,839,705
Net	590,076	(47,639)	542,437
Other Financing Sources, net	12,794	21,384	34,178
Beginning Fund Balances	3,304,158	272,059	3,576,217
Decrease in Reserve For:			
Inventories	0	(55,474)	(55,474)
Ending Fund Balances	\$3,907,028	\$190,330	\$4,097,358

See Accompanying Independent Auditors' Report

Franklin County

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the County Board of Supervisors annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units and Agency Funds, and appropriates the amount deemed necessary for each of the different County offices and departments. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriation lapse at year end.

Formal and legal budgetary control is based upon 10 major classes of expenditures known as functions, not by fund or fund type. These 10 functions are: public safety and legal services, physical health and social services, mental health, county environment and education, roads and transportation, governmental services to residents, administration, non-program, debt service and capital projects. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. Legal budgetary control is also based upon the appropriation to each office or department. During the year, four budget amendments increased budgeted disbursements by \$70,400. The budget amendments are reflected in the final budgeted amounts.

In addition, annual budgets are similarly adopted in accordance with the Code of Iowa by the appropriate governing body as indicated: for the County Extension Office by the County Agricultural Extension Council, for the County Assessor by the County Conference Board, for the E911 System by the Joint E911 Service Board and for Emergency Management Services by the County Emergency Management Commission.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the County Environment and Education function and disbursements in certain departments exceeded the amounts appropriated.

FRANKLIN COUNTY
Hampton, Iowa

COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
June 30, 2004

	Landfill	County Recorder's Records Management	Resource Enhancement & Protection	Rural County Betterment	Northern Pipe Urban Renewal	County Recorder's Electronic Transaction
ASSETS						
Cash & Pooled Investments	\$198,836	\$2,924	\$9,649	\$68,161	\$261	\$22,723
Receivables						
Accounts	1,680	282	0	0	0	0
Accrued Interest	0	1	0	0	0	8
Drainage Assessments	0	0	0	0	0	0
Due from Other Governments	0	0	0	8,029	0	0
TOTAL ASSETS	\$200,516	\$3,207	\$9,649	\$76,190	\$261	\$22,731
LIABILITIES AND FUND EQUITY						
Liabilities						
Accounts Payable	\$24	\$0	\$0	\$0	\$0	\$0
Salaries and Benefits Payable	0	0	0	0	0	0
Interest Payable	0	0	0	0	0	0
Deferred Revenue	0	0	0	0	0	0
Total Liabilities	24	0	0	0	0	0
Fund Equity						
Fund Balance						
Unreserved	200,492	3,207	9,649	76,190	261	22,731
TOTAL LIABILITIES AND FUND EQUITY	\$200,516	\$3,207	\$9,649	\$76,190	\$261	\$22,731

See Accompanying Independent Auditors' Report

Schedule 1

Drainage	Sheriff's Forfeiture	Tobacco/ Alcohol	DARE	Public Health	Home- makers	Conservation Land Acquisition	Conservation Drill Replacement	Total
\$128,206	\$12,399	\$1,232	\$14,826	\$0	\$0	\$66,272	\$1,567	\$527,056
0	1,100	0	0	39,594	0	0	0	42,656
0	10	0	7	0	0	0	0	26
24,945	0	0	0	0	0	0	0	24,945
0	0	0	0	54,023	0	0	0	62,052
\$153,151	\$13,509	\$1,232	\$14,833	\$93,617	\$0	\$66,272	\$1,567	\$656,735
0	\$159	\$0	\$439	\$13,738	\$1,003	\$0	\$0	\$15,363
0	0	0	0	562	3,168	0	0	3,730
269	0	0	0	0	0	0	0	269
24,928	0	0	0	0	0	0	0	24,928
25,197	159	0	439	14,300	4,171	0	0	44,290
127,954	13,350	1,232	14,394	79,317	(4,171)	66,272	1,567	612,445
\$153,151	\$13,509	\$1,232	\$14,833	\$93,617	\$0	\$66,272	\$1,567	\$656,735

FRANKLIN COUNTY
Hampton, Iowa

COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR SPECIAL REVENUE FUNDS
Year Ended June 30, 2004

	Landfill	County Recorder's Records Management	Resource Enhancement & Protection	Clocktower Restoration	Rural County Betterment	Highway 65 Urban Renewal	Northern Pipe Urban Renewal
Revenues							
Property and Other County Tax	\$0	\$0	\$0	\$0	\$113,005	\$5,487	\$0
Intergovernmental	31,660	0	9,366	0	0	0	0
Charges for Services	0	3,131	0	0	0	0	0
Use of Money and Property	0	41	20	0	0	0	0
Miscellaneous	1,680	0	0	1,200	0	0	0
Total Revenues	33,340	3,172	9,386	1,200	113,005	5,487	0
Expenditures							
Operating							
Public Safety and Legal Services	0	0	0	0	0	0	0
Physical Health and Social Services	0	0	0	0	0	0	0
County Environment and Education	21,856	0	4,190	0	109,461	0	0
Governmental Services to Residents	0	5,428	0	0	0	0	0
NonProgram	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	5,545	26,943
Capital Projects	0	0	0	3,064	0	0	0
Total Expenditures	21,856	5,428	4,190	3,064	109,461	5,545	26,943
Excess (Deficiency) of Revenues Over (Under)							
Expenditures	11,484	(2,256)	5,196	(1,864)	3,544	(58)	(26,943)
Other Financing Sources (Uses)							
Operating Transfers In	0	0	0	0	0	0	0
Drainage Warrant Proceeds	0	0	0	0	0	0	0
	0	0	0	0	0	0	0
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	11,484	(2,256)	5,196	(1,864)	3,544	(58)	(26,943)
Fund Balances – Beginning of Year	189,008	5,463	4,453	1,864	72,646	58	27,204
Fund Balances – End of Year	\$200,492	\$3,207	\$9,649	\$0	\$76,190	\$0	\$261

See Accompanying Independent Auditors' Report

Schedule 2

County Recorder's Transaction	Drainage	Sheriff's Forfeiture	Tobacco/ Alcohol	DARE	Public Health	Home- makers	Conservation Land Acquisition	Conservation Drill Replacement	Total
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$118,492
0	0	0	1,232	0	86,029	0	2,425	0	130,712
22,689	0	0	0	0	2,460	0	0	0	28,280
42	0	97	0	89	0	0	0	0	289
0	156,687	16,865	0	17,824	5,128	0	0	1,567	200,951
22,731	156,687	16,962	1,232	17,913	93,617	0	2,425	1,567	478,724
0	0	3,612	0	3,519	0	0	0	0	7,131
0	0	0	0	0	14,300	4,171	0	0	18,471
0	0	0	0	0	0	0	29,197	0	164,704
0	0	0	0	0	0	0	0	0	5,428
0	164,159	0	0	0	0	0	0	0	164,159
0	0	0	0	0	0	0	0	0	32,488
0	0	0	0	0	0	0	2,374	0	5,438
0	164,159	3,612	0	3,519	14,300	4,171	31,571	0	397,819
22,731	(7,472)	13,350	1,232	14,394	79,317	(4,171)	(29,146)	1,567	80,905
0	0	0	0	0	0	0	28,384	0	28,384
0	12,379	0	0	0	0	0	0	0	12,379
0	12,379	0	0	0	0	0	28,384	0	40,763
22,731	4,907	13,350	1,232	14,394	79,317	(4,171)	(762)	1,567	121,668
0	123,047	0	0	0	0	0	67,034	0	490,777
\$22,731	\$127,954	\$13,350	\$1,232	\$14,394	\$79,317	\$(4,171)	\$66,272	\$1,567	\$612,445

FRANKLIN COUNTY
Hampton, Iowa

COMBINING SCHEDULE OF FIDUCIARY
ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
ASSETS				
Cash and Pooled Investments				
County Treasurer	\$0	\$2,974	\$98,320	\$78,375
Other County Officials	4,741	0	0	0
Receivables				
Property Tax				
Delinquent	0	6	6	355
Succeeding Year	0	109,765	131,315	6,395,477
Accounts	969	0	208	0
Accrued Interest	0	0	0	0
Due from Other Governments	0	46	54	2,686
TOTAL ASSETS	\$5,710	\$112,791	\$229,903	\$6,476,893
LIABILITIES				
Accounts Payable	\$0	\$0	\$3,851	\$0
Due to Other Governments	499	112,791	226,052	6,476,893
Trusts Payable	5,211	0	0	0
TOTAL LIABILITIES	\$5,710	\$112,791	\$229,903	\$6,476,893

See Accompanying Independent Auditors' Report

Schedule 3

Area Schools	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Total
\$4,355 0	\$21,821 0	\$1,465 0	\$2,978 0	\$249,585 0	\$180,024 0	\$639,897 4,741
18	319	3	0	0	46	753
315,642	2,644,399	119,213	0	0	917,528	10,633,339
0	0	0	0	0	1,411	2,588
0	0	0	0	0	99	99
126	1,919	30	0	0	574	5,435
\$320,141	\$2,668,458	\$120,711	\$2,978	\$249,585	\$1,099,682	\$11,286,852
\$0	\$0	\$0	\$0	\$0	\$78,561	\$82,412
320,141	2,668,458	120,711	2,978	249,585	1,015,297	11,193,405
0	0	0	0	0	5,824	11,035
\$320,141	\$2,668,458	\$120,711	\$2,978	\$249,585	\$1,099,682	\$11,286,852

FRANKLIN COUNTY
Hampton, Iowa

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY
ASSETS AND LIABILITIES – AGENCY FUNDS
Year Ended June 30, 2004

	County Offices	Agricultural Extension Education	County Assessor	Schools
Assets and Liabilities				
Balances Beginning of Year	\$31,053	\$109,899	\$216,038	\$6,354,950
Additions				
Property and Other County Tax	0	113,424	135,912	6,609,632
E911 Surcharge	0	0	0	0
State Tax Credits	0	6,375	8,009	374,771
Drivers License Fees	0	0	0	0
Office Fees and Collections	254,811	0	0	0
Electronic Transaction Fee	0	0	0	0
Auto Licenses, Use Tax and Postage	0	0	0	0
Assessments	0	0	0	0
Trusts	882,653	0	0	0
Miscellaneous	0	31	2,613	1,880
Total Additions	1,137,464	119,830	146,534	6,986,283
Deductions				
Agency Remittances				
To Other Funds	169,143	0	0	0
To Other Governments	85,575	116,938	132,669	6,864,340
Trusts Paid Out	908,089	0	0	0
Total Deductions	1,162,807	116,938	132,669	6,864,340
Balances End of Year	\$5,710	\$112,791	\$229,903	\$6,476,893

See Accompanying Independent Auditors' Report

Schedule 4

Area Schools	Corporations	Townships	City Special Assessments	Auto License & Use Tax	Other	Totals
\$345,191	\$2,450,182	\$121,938	\$4,911	\$219,093	\$947,623	\$10,800,878
327,119	2,751,249	123,223	0	0	943,395	11,003,954
0	0	0	0	0	65,318	65,318
20,240	150,200	6,460	0	0	46,838	612,893
0	0	0	0	76,726	0	76,726
0	0	0	0	0	0	254,811
0	0	0	0	0	15,666	15,666
0	0	0	0	2,507,766	0	2,507,766
0	0	0	40,190	0	0	40,190
0	0	0	0	0	80,350	963,003
88	2,367	0	0	0	28,234	35,213
347,447	2,903,816	129,683	40,190	2,584,492	1,179,801	15,575,540
0	0	0	0	100,623	0	269,766
372,497	2,685,540	130,910	42,123	2,453,377	946,207	13,830,176
0	0	0	0	0	81,535	989,624
372,497	2,685,540	130,910	42,123	2,554,000	1,027,742	15,089,566
\$320,141	\$2,668,458	\$120,711	\$2,978	\$249,585	\$1,099,682	\$11,286,852

FRANKLIN COUNTY
Hampton, Iowa

**SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES**

For the Last Two Years

	<u>Modified Accrual Basis</u>	
	<u>2004</u>	<u>2003</u>
Revenues:		
Property & Other County Tax	\$4,222,168	\$4,160,905
Interest & Penalty On Property Tax	27,087	27,745
Intergovernmental	4,216,205	3,680,055
Licenses & Permits	4,850	3,015
Charges For Service	476,618	474,960
Use of Money & Property	80,141	103,768
Miscellaneous	355,073	210,219
Total	<u>\$9,382,142</u>	<u>\$8,660,667</u>
Expenditures:		
Operating		
Public Safety & Legal Services	\$1,011,949	\$1,026,679
Physical Health & Social Services	1,218,394	1,255,053
Mental Health	1,005,413	995,789
County Environment & Education Services	507,341	943,424
Roads and Transportation	2,708,995	3,013,516
Governmental Services To Residents	248,222	234,555
Administration	1,309,166	1,207,662
Non-Program	164,159	301,484
Debt Services	32,488	7,796
Capital Projects	633,578	9,053
Total	<u>\$8,839,705</u>	<u>\$8,995,011</u>

See Accompanying Independent Auditors' Report

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting

To the Officials of Franklin County:

We have audited the financial statements of Franklin County, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 12, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Franklin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved, except for item (2).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Franklin County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item (A) is a material weakness. Prior year reportable conditions have been resolved except for item (A).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Franklin County and other parties to whom Franklin County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Franklin County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

January 12, 2005

FRANKLIN COUNTY
Hampton, Iowa

SCHEDULE OF FINDINGS
Year Ended June 30, 2004

Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

- (A) **Segregation of Duties** – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the County Officials should review the operating procedures of each office to obtain the maximum internal control possible under the circumstances.

Response – We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by each office will be separated and spread among the Official, Deputy and Clerk.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting:

- 1 **Official Depositories** – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year except for deposits at First Citizens National Bank. The maximum authorized amount of \$1,000,000 was exceeded at various times during the year ended June 30, 2004.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Board.

Response – We will review the depository resolutions to ensure that they are sufficient to cover anticipated balances.

Conclusion – Response accepted.

- 2 **Certified Budget** – Disbursements during the year ended June 30, 2004 exceeded the amount budgeted in the County Environment and Education Function and disbursements in certain departments exceeded the amounts appropriated.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget. Chapter 331.434(b) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the function budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

Response – We will amend the budget when required and appropriations will be awarded before any disbursements are made and will be watched more closely by the departments.

Conclusion – Response accepted.

- 3 **Questionable Expenditures** – No expenditures that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- 4 **Travel Expense** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.
- 5 **Business Transaction** – The following business transactions between the County and County officials or employees were noted.

<u>Name and Title</u>	<u>Description</u>	<u>Amount</u>
Michelle Giddings – Auditor Husband is owner of Giddings Signs	Signs	\$473
Dennis Carlson – Conservation Director Wife is owner of Cathy’s Country Cooking	Services	\$15
Diane Welden – Public Health Nurse Husband is owner of Weldin’s Auto Body	Services	\$264

In accordance with Chapter 331.342 of the Code of Iowa, these transactions do not appear to represent conflicts since total transactions were less than \$1,500 during the fiscal year.

- 6 **Bond Coverages** – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed periodically to ensure that coverage is adequate for current operations.
- 7 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 8 **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County’s investment policy were noted.
- 9 **Resource Enhancement and Protection Certification** - The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- 10 **County Extension Office** – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in Exhibits A or B.

Disbursements during the year ended June 30, 2004 for the County Extension Office did not exceed the amount budgeted
- 11 **Economic Development** – During the year ended June 30, 2004, the County spent \$184,098 for economic development, for which the public purpose was properly documented.

News Release

March 30, 2005

Gardiner Thomsen, P.C. today released an audit report on Franklin County, Iowa.

The County has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Also included is Management's Discussion and Analysis of the County's financial statements.

The County had local tax revenue of \$16,053,962 for the year ended June 30, 2004, which included \$827,840 in tax credits from the State. The County then forwarded \$11,157,889 of the local tax revenue to the townships, school districts, cities, and other taxing bodies in the County.

The County retained \$4,896,073 of the local tax revenue to finance County operations, a 7% increase from the prior year. Other revenues included charges for service of \$761,224, operating grants, contributions and restricted interest of \$3,470,730, unrestricted investment earnings of \$59,610 and other general revenues of \$1,009,921.

Expenses for the County operations totaled \$8,318,054, a 8% decrease from the prior year. Expenses included \$2,975,761 for Roads and Transportation, \$1,238,973 for Physical Health and Social Services, and \$1,140,149 for Administration.

The significant increase/(decrease) in revenues and expenses is due primarily to increased Intergovernmental revenue and decreased Roads and Transportation and County Environment and Education expenses.

A copy of the audit report is available for review in the Office of the Auditor of State and the County Auditor's office.

#####